



# STATE OF CONNECTICUT NEWS

State Treasurer Denise L. Nappier  
Attorney General Richard Blumenthal

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## **NAPPIER, BLUMENTHAL SEEK TO RECOVER PENSION FUNDS FROM PRIVATE EQUITY FIRM FORSTMANN LITTLE & CO.**

### *Allege Firm Broke Contractual Obligations, Fiduciary Responsibility*

State Treasurer Denise L. Nappier and Attorney General Richard Blumenthal, on behalf of the Connecticut pension fund, today filed suit to recover state pension funds managed by private equity investment company Forstmann Little & Co.

Blumenthal and Nappier said the violations of law alleged fall into three areas: breach of fiduciary responsibilities, breach of contractual obligations, and violations of securities law. The suit is being filed in Superior Court in Connecticut, and is virtually unprecedented within the private equity industry.

"You don't have to be an expert to understand what Forstman Little did," Nappier said. "Forstmann Little cheated Connecticut workers and retirees of their hard earned pension money, and they did so in the hopes of a better pay day for themselves. I have a responsibility to protect Connecticut's pension funds from unilateral actions by our partners that violate their contractual and fiduciary obligations to us as well as the law."

The State Treasurer is principal fiduciary of the \$20 billion Connecticut Retirement Plans and Trust Funds, which invests pension funds for 165,000 state and municipal employees and teachers.

"This firm enronized Connecticut, through its blatant abuse of trust," Blumenthal said. "They double-crossed us, pretending to be our partner but really selling us out. We want more than the \$100 million plus that they wasted and wiped out. We want to make Forstmann Little the poster child for shareholder fair-dealing in the investment community. When it wrote down XO, Forstmann Little wiped out our investment, favoring its own interests and others over ours. Connecticut's money deserves the same respect and trust as this firm's fat cat friends on Wall Street."

Blumenthal and Nappier said the legal action is an appropriate response to a series of egregious actions by Forstmann Little. The suit alleges that Forstmann Little made investments that were not permitted under their contractual agreements with Connecticut and that they misled, misrepresented, and concealed information regarding the nature of their investments.

"This type of arrogant behavior is unacceptable and outside the norms of this or any industry. We all know that a legal agreement should be binding, not bendable. Forstmann Little's actions not only bent their obligations to Connecticut, they broke them," Nappier said.

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Former State Treasurer Christopher Burnham invested \$200 million in two Forstmann Little funds in 1997, Forstmann Little MBO VII (\$130 million) and Forstmann Little Equity Fund VI (\$70 million). Forstmann Little is one of the leading companies in the private equity industry. Since 1978, the firm has invested almost \$12 billion in 29 acquisitions and investments.

"Forstmann Little had an obligation to pursue a specific investment strategy and they did not. They had specific limits on how to invest the state's pension funds, and they exceeded them. They had specific obligations to Connecticut as a fiduciary, and they ignored them," Nappier said.

"This firm treated Connecticut like a patsy. It solicited and took our money with promises that it would apply its time-tested, trustworthy investment strategy suitable for our pension funds," Blumenthal said. "Instead, it squandered our funds on unsafe, speculative telecommunications investments that tanked – lousy companies in a losing industry."

"This lawsuit was not triggered solely because of any investment losses. I understand volatility and I take a long-term investment perspective. This lawsuit is about recovering funds mismanaged and lost because our general partner, Forstmann Little, violated its contractual obligation and fiduciary responsibility," Nappier said.

In 2001, Treasurer Nappier first raised concerns about the valuations of two publicly traded companies, XO Communications and McLeod USA, principally because their stock prices dropped precipitously yet the partnership investments were held at cost. Forstmann Little had made significant investments during that year with state pension funds, \$95 million in XO Communications and \$31.4 million in McLeod USA. The two financially strapped telecommunications companies later received additional infusions of capital from Forstmann Little. In November 2001, Forstmann Little announced a complete write-down of the XO Communications investment as part of a financial restructuring, resulting in a loss to the Connecticut pension fund of the \$95 million of state funds that Forstmann Little had previously invested in the company.

"I have no intention of sitting on the sidelines when a money manager takes Connecticut's pension funds and places them in jeopardy," Nappier said. "We have seen recently in the Enron debacle what happens when fiduciaries abdicate their responsibilities to prudently manage retirement funds."

The lawsuit alleges that "Forstmann Little deliberately failed to inform the State of Connecticut about its plans to render the Partnership investments in XO worthless ... and opted to ... utilize other limited partnerships it controlled to eradicate the value of the State of Connecticut's investment in XO, while benefiting the separate interests of Forstmann Little and its other partnerships."

"This lawsuit is about more than losing money. It is about betraying trust and breaking the law," Blumenthal said. "Forstmann Little's restructuring schemes were a cover for shortchanging our pension funds."

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